

Message Text

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ACTION EA-10

INFO OCT-01 ISO-00 H-01 INR-07 L-02 PM-03 PRS-01 SP-02

EB-07 OES-03 SS-15 /052 W

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R 310610Z JAN 75

FM AMEMBASSY SAIGON

TO SECSTATE WASHDC 2365

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EO 11652: N/A

TAGS: ENRG VS

SUBJECT: PECTEN VIETNAM/CITIES SERVICE OFFICIALS DISCUSS PRODUCTION
SHARING WITH GVN OFFICIALS

SUMMARY: PECTEN VIETNAM/CITIES SERVICE OFFICIALS DISCUSSED PRO-
DUCTION SHARING TERMS WITH GVN OFFICIALS.LATTER WERE INFORMED AGREE-

MENT ON THESE TERMS NECESSARY BEFORE OIL FIRMS CAN DECLARE FIELD TO
BE COMMERCIAL. END SUMMARY

1. LAST WEEK MESSRS. GERALD A. BURTON, PRESIDENT OF PECTEN VIETNAM,
AND P.W.J. WOOD, VICE PRESIDENT-GENERAL MANAGER OF CITIES SERVICE
INTERNATIONAL, DISCUSSED PRODUCTION SHARING WITH DEPUTY PRIME
MINISTER HAO, MINISTER OF PLANNING HUNG, VICE MINISTER OF INDUSTRY
TAN, AND GENERAL MANAGER KHOI OF PETROLEUM AND MINERALS AGENCY.
BURTON/WOOD EMPHASIZED THEIR NEED TO KNOW GVN THINKING ON THIS
MATTER. GVN OFFICIALS, WHILE CAUTIOUS AND HESITANT, EXPRESSED
THEIR EAGERNESS FOR A COMMERCIAL FIND AS SOON AS POSSIBLE. BURTON/
WOOD INFORMED GVN OFFICIALS THAT A FIELD OF OVER 500 MILLION BARRELS
COULD READILY BE CALLED COMMERCIAL, BUT A SMALLER FIELD LIKE THE
DUA IX COULD ONLY BE COMMERCIAL IF PARTICIPATION TERMS MADE IT
POSSIBLE

FOR PECTEN TO RECOVER ITS COST IN 6-8 YEARS AND EARN A REASONABLE
PROFIT. GVN OFFER TO MAKE THE FIRST AND SECOND FIELD WITH ZERO GVN
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PARTICIPATION WAS REJECTED. BURTON/WOOD TOLD GVN OFFICIALS THAT SUCH

AN ARRANGEMENT WOULD NOT BE POLITICALLY DEFENSIBLE. THEY EXPRESSED THEIR INTEREST IN TERMS THAT WOULD BE FAIR TO BOTH PARTIES.

2. BURTON/WOOD MENTIONED THAT PRODUCTION SHARING FORMULA ON THE INDONESIAN PATTERN BUT WITH A SLIDING SCALE DEPENDING ON SIZE OF FIELD WOULD BE MOST APPROPRIATE FOR VIETNAM. THE LARGER THE FIELD THE SMALLER THE COST OIL PORTION REPRESENTING RECOVERY OF OIL FIRM'S DRILLING COSTS. GVN'S PETROLEUM LAW IS, HOWEVER, BASED ON THE MIDDLE EAST PATTERN, WHICH PRECLUDES PRODUCTION SHARING ARRANGEMENTS. SINCE GVN OFFICIALS STATED THAT CHANCES OF MODIFYING PETROLEUM LAW ARE NIL AT PRESENT, BURTON/WOOD AGREED TO PROVIDE PRODUCTION SHARING TERMS THAT WOULD BE CONSISTENT WITH PRESENT LAW. SHELL OIL EXPERTS FROM HOUSTON ARE EXPECTED TO PRESENT SEVERAL MODELS BASED ON PARTICIPATION TERMS WITH SLIDING SCALE IN MID FEBRUARY.

3. BURTON/WOOD RECOMMENDED THAT PMA HIRE A PETROLUUM CONSULTANT WHO COULD ADVISE GVN ON TECHNICAL PETROLEUM MATTERS AND ASSIST GVN OFFICIALS IN THEIR NEGOTIATIONS WITH OIL FIRMS. LEHMANN

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: AGREEMENTS, PETROLEUM PRODUCTION, NEGOTIATIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 31 JAN 1975
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: johnsorg
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975SAIGON01177
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750037-0859
From: SAIGON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t1975012/aaaaablw.tel
Line Count: 83
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: STADIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: STADIS
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: johnsorg
Review Comment: n/a
Review Content Flags:
Review Date: 28 JUL 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <28 JUL 2003 by KelleyW0>; APPROVED <20 NOV 2003 by johnsorg>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PECTEN VIETNAM/CITIES SERVICE OFFICIALS DISCUSS PRODUCTION SHARING WITH GVN OFFICIALS
TAGS: ENRG, VS
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006